

VERMONT PENSION INVESTMENT COMMITTEE

November 29, 2005

Members present:

JEB SPAULDING, Chairman, VT State Treasurer
WARREN WHITNEY, Vice-Chairman, VSEA member (term expiring September, 2006)
LINDA McINTIRE, Commissioner of Human Resources
WILLIAM HARKNESS, VSEA member (term expiring September 2007)
ROBERT HOOPER, VSEA member (term expiring September 2006)
JOE HEALY, Retired Vermont State Employees' Association
STEVEN JEFFREY, Employee Representative (term expiring July 1, 2007)
DAVID LEWIS, Employer Representative (term expiring July 1, 2006) – **arrived later in the meeting**
MARIE DUQUETTE, VMERS Governor's delegate – **arrived later in the meeting**
JOSEPH MACKEY, Active No. 29334 (term expiring July 1, 2009)
JAY KAPLAN, Association of Retired Teachers of Vermont, (term expiring July 1, 2008)
JON HARRIS, Active No. 25669 (term expiring July 1, 2007)
THOMAS CANDON, representing Commissioner of BISHCA
VAUGHN ALTEMUS, representing Commissioner of Education

Members absent:

W. JOHN MITCHELL, II, Employee Representative (term expiring July 1, 2008)
DICK JOHANNESSEN, VSERS Governor's Delegate
JAMES REARDON, Commissioner of Finance & Management

Also attending:

Donna Holden, Clerk
David Minot, Director of Finance and Investments
Bill Rice, Director of Law and Policy
Bill Griffin, Chief Assistant Attorney General
Dick Charlton and Kevin Kondry New England Pension Consultant
June Atwood, Association of Retired Teachers of Vermont
Rita Rinehart, Association of Retired Teachers of Vermont
TOM GIFFIN, VSEA Alternate (term expiring September 2007)
Investment Manager Personnel

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the November 29, 2005, quarterly meeting to order at 8:10 a.m., which was held in the Pavilion 4th Floor Conference Room, 109 State Street, Montpelier, VT.

Mr. Spaulding welcomed members, guests, and staff. Mr. Whitney announced the resignation of Janice Abair and introduced Joe Healy to the Board, to serve as the new Retired Association representative.

ITEM 1: **Board Action Items**

- A. Approval of Minutes – October 11, 2005 educational meeting

Mr. Altemus made a motion seconded by Mr. Harris, to approve the minutes of the October 11, 2005 meeting, as submitted. *Motion passed.*

Ms. Duquette arrived during the following item.

B. Environmental RFI Action – Discussion and Possible Action

The Committee reviewed and discussed the previous Environmental RFI action acted upon by the individual Boards.

Mr. Altemus made a motion seconded by Mr. Candon, to request NEPC continue the RFP process, initiated by the VSERS and VSTRS Boards for an environmentally managed US or global mandate, as discussed in the August 15, 2005 memo on the subject from Ellen Griggs and Jennifer Heilig and that the VPIC Investment/Search Subcommittee work with NEPC to select up to three managers for consideration by the VPIC. No decision would be made about whether to actually select and fund a manager(s) until the review process is complete. *Motion failed.*

Mr. Lewis arrived during the following item.

C. Consolidated *Statement of Investment Guidelines* Approval

The Committee reviewed and discussed the November 2005 consolidated *Statement of Investment Guidelines* DRAFT.

By consensus the Committee agreed to the following changes to the DRAFT:

- Add the VSTRS to section II, paragraph 2, page A3.
- Change “required” to “assumed” in section IV, paragraph 3, page A7.

Ms. Duquette made a motion seconded by Mr. Altemus, to approve the consolidated *Statement of Investment Guidelines* DRAFT.

Mr. Kaplan made a motion seconded by Mr. Hooper, to amend the original motion and amend the *Statement of Investment Guidelines* to remove the second sentence, which included “buffer” language in section IV, paragraph 3, on page A7. *Motion failed.*

Mr. Altemus made a motion seconded by Ms. Duquette, to amend the original motion and amend the *Statement of Investment Guidelines* to institute a uniformed .50 basis point buffer across all three stysems, and remove the teacher’s information contained in the parentheses. *Motion failed.*

Mr. Lewis made a motion seconded by Mr. Kaplan, to amend the original motion and amend the *Statement of Investment Guidelines* in section V, paragraph 3, page A8 to read ... The Board will review asset allocations *for each system* regularly... (Motion not voted on as result of following motion.)

Mr. Jeffrey made a motion seconded by Mr. Candon, to defer action on the original motion by referring the November 2005 consolidated *Statement of Investment Guidelines* DRAFT to the Investment/Search Subcommittee for housekeeping and review. *Motion passed.*

D. Investment/Search Subcommittee Report and Recommendations

Mr. Whitney led the Committee in a review and discussion of the VPIC Investment/Search Subcommittee November 3rd and November 22nd minutes and recommendations, which were to adopt policies #7-005, and #8-005.

Mr. Jeffrey made a motion seconded by Mr. Kaplan, to approve and adopt policy #7-005, as submitted and discussed.

Mr. Kaplan made a motion seconded by Mr. Healy, to cease debate and call the question. Motion passed.

The original motion passed to approve and adopt policy #7-005, as submitted and discussed.

Mr. Whitney advised the Committee reports would be provided outlining RFP/RFI/RFQ evaluation criteria, data, etc. considered, and leading to final recommendations brought before the VPIC.

Mr. Lewis made a motion seconded by Mr. Jeffrey, to approve and adopt policy #8-005, as submitted and discussed. Motion passed.

E. Policy Subcommittee Report and Recommendations

Mr. Jeffrey led the Committee in a review and discussion of the VPIC Policy Subcommittee recommendations, which were to adopt policies #5-005 and #6-005, and make a policy (#9-005) for Travel and Expenses, as discussed and reflected in the September 27, 2005, Policy Subcommittee minutes.

Mr. Jeffrey made a motion seconded by Mr. Harris, to approve and adopt policy #5-005, as submitted and discussed. Motion passed.

Mr. Jeffrey made a motion seconded by Mr. Kaplan, to approve and adopt policy #6-005, as submitted and discussed. Motion passed.

Mr. Jeffrey made a motion seconded by Mr. Whitney, to approve and adopt a policy #9-005, as discussed. Motion passed.

F. Assignment of Authority to Director of Finance & Investments

The Committee reviewed the list of job functions and duties provided by the Director of Finance and Investments. The Committee agreed there was no need to assign formal authority to the Director.

G. Proxy Voting Update and Possible Action

Mr. Minot reviewed the proxy voting proposal to hire ISS to vote all proxies on behalf of the VPIC.

Mr. Lewis made a motion seconded by Mr. Whitney to adopt the motion prepared by Mr. Minot.

Mr. Kaplan made a motion seconded by Mr. Mackey, to amend the original motion prepared by Mr. Minot to change the recommended fee split equally among the three systems, or to one-thirds. Motion failed.

The original motion passed to adopt the motion prepared by Mr. Minot, which read: That ISS is engaged by VPIC to provide full proxy voting services for all separately managed large, small, mid or “smid” cap domestic equity accounts and all separately managed international equity accounts for a maximum fee of \$40,000 per year to be allocated pro rata to each Vermont Retirement System on the basis of assets within these asset classes. Further, that representatives from each Retirement System meet with ISS and the Treasurer’s Office to develop an international proxy voting policy.

Mr. Minot advised the Committee an International Proxy Voting Policy would need development. Mr. Spaulding asked volunteers who would assist in the development to contact Mr. Minot.

H. Consolidated *Statement of Investment Guidelines* Approval (CONTINUED)

At the request of Mr. Minot, the Chair asked the Committee to revisit an issue related to the previous action taken by the Committee, with respect to T Rowe Price Investment Management provisions.

Mr. Jeffrey made a motion seconded by Ms. Duquette, to adopt the following resolution prepared by Mr. Minot. Resolved: The investment guidelines for T. Rowe Price U.S. Large Cap Core Equity are amended as included in Section B of the Proposed Vermont State Retirement Systems Statement of Investment Guidelines, dated November 2005. Motion passed.

I. Other

The Committee briefly discussed their desire for a future agenda item to discuss development of a VPIC budget, and expense accounting.

Mrs. McIntire and Mr. Candon left the meeting.

ITEM 2: Board Discussion Items

A. Investment Consultant Q3/2005 Reports

Mr. Charlton provided a state of the economy perspective. The Committee reviewed the individual plan’s current and target asset allocations, manager summaries, and plan performance.

VMERS:

Mr. Charlton and Mr. Kondry reviewed the third quarter 2005 performance. They reported the market value of the fund balance at approximately \$256.9 million and a gross quarterly return of 4.0%, an out performance of the 3.5% median public fund. The one-year return was 12.5% vs. the median public fund at 13.0%, three-year return 13.4% vs. the median public fund at 13.9% and a five-year return of 5.3% vs. 4.4%.

VSERS:

Mr. Charlton and Mr. Kondry reviewed the third quarter 2005 performance. They reported the market value of the fund balance at approximately \$1.155 billion and a gross quarterly return of 3.6%, an out performance of the 3.5% median public fund. The one-year return was 12.2% vs. the median public fund at 13.0%, three-year return 14.8% vs. the median public fund at 13.9% and a five-year return of 3.9% vs. 4.4%.

VSTRS:

Mr. Charlton and Mr. Kondry reviewed the third quarter 2005 performance. They reported the market value of the fund balance at approximately \$1.363 billion and a gross quarterly return of 3.2%, an under performance of the 3.5% median public fund. The one-year return was 12.7% vs. the median public fund at 13.0%, three-year return 15.1% vs. the median public fund at 13.9% and a five-year return of 5.1% vs. 4.4%.

Mr. Charlton and Mr. Kondry agreed to include a “What Helped and What Hurt” page in future quarterly books, and a column listing manager performance, net of fees.

B. New Contracts – Funding Update

Mr. Minot reviewed his proposed funding schedule for Global Bond, International Equity, Indexes, and Small Cap managers.

Mr. Jeffrey left during the next item.

ITEM 3: Committee Education

A. Global Asset Allocation Managers

PIMCO ALL ASSETS: James Clark, Vice President for U. S. Institutional Business, Scott A. Millimet, Senior Vice President and Client Servicing Account Manager, and Jason Hsu, Ph.D., Principal and Director of Research and Investment Management from the product’s sub-advisor Research Affiliates, appeared before the Committee.

Mr. Millimet advised the Committee the fully transparent and liquid global 3½ year old PIMCO All Asset Fund would be strictly governed by the prospectus. He said investors would receive sufficient advance notice of changes, if any, to the prospectus. Mr. Millimet also advised the since inception product fee at .85 basis points (inclusive of sub-advisor and underlying fund fees) would be in place through the end of March 2006, however, subject to change after that date.

Mr. Lewis left the meeting before the next item.

Mr. Harris left the meeting during the next item.

MELLON GLOBAL ALPHA 1: Vikas Oswal, Executive Vice President and Chief Investment Strategist, and Michael B. Kotarski, Vice President of Marketing, appeared before the Committee.

Mr. Kotarski reported the fully transparent and liquid global product fees at .65 basis points on the first \$100 million, .55 basis points on the next \$100 million, and .50 basis points on the balance over \$200 million. Mr. Oswal advised the product’s inception date was January 31, 2004 with a 2004 return at 14.41% and 2005 year-to-date return reported at 11.11%.

B. Discussion of Contract Issues re: GAA Products

Mr. Rice and Mr. Griffin reviewed several points of concerns regarding potential contracting issues, including the lack of receipt of associated documents from the vendors.

ITEM 4: Any Member NEW Business or OTHER Business to Come Before the Committee

None

ITEM 5: Adjournment

On a motion by Mr. Whitney seconded by Mr. Altemus, the Committee unanimously voted to adjourn at 4:10 p.m. until November 30, 2005 at 8:00 a.m.

VERMONT PENSION INVESTMENT COMMITTEE

November 30, 2005

Members present:

JEB SPAULDING, Chairman, VT State Treasurer

WARREN WHITNEY, Vice-Chairman, VSEA member (term expiring September, 2006) – **arrived later in the meeting**

ROBERT HOOPER, VSEA member (term expiring September 2006)

LINDA McINTIRE, Commissioner of Human Resources

STEVE GOLD, representing JAMES REARDON, Commissioner of Finance & Management

JOE HEALY, Retired Vermont State Employees' Association

STEVEN JEFFREY, Employee Representative (term expiring July 1, 2007)

MARIE DUQUETTE, VMERS Governor's delegate – **arrived later in the meeting**

JOSEPH MACKEY, Active No. 29334 (term expiring July 1, 2009)

JAY KAPLAN, Association of Retired Teachers of Vermont, (term expiring July 1, 2008)

VAUGHN ALTEMUS, representing Commissioner of Education

THOMAS CANDON, representing Commissioner of BISHCA – **arrived later in the meeting**

JON HARRIS, Active No. 25669 (term expiring July 1, 2007) – **arrived later in the meeting**

Members absent:

DICK JOHANNESSEN, VSERS Governor's Delegate

WILLIAM HARKNESS, VSEA member (term expiring September 2007)

W. JOHN MITCHELL, II, Employee Representative (term expiring July 1, 2008)

DAVID LEWIS, Employer Representative (term expiring July 1, 2006)

Also attending:

Donna Holden, Clerk

David Minot, Director of Finance and Investments

Dick Charlton, Kevin Kondry, and Ellen Griggs, New England Pension Consultant
Investment Manager Personnel

CALL TO ORDER:

The Chairperson, Jeb Spaulding, called the meeting to order at 8:25 a.m. in the Pavilion 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: NEPC Investment Manager Review

Along with the Committee, Mr. Charlton and Mr. Kondry reviewed the *November 2005 Existing Fixed Income Manager Review* book, prepared by NEPC

Brandywine Asset Management, LLC – Global Bonds: Stephen Smith, Executive Vice President and Portfolio Manager, Nadra Hadley, Senior Vice President, Client Services, and J. Patrick Bradley, Senior Vice President and Client Relationship Manager appeared before the Committee. This manager was funded on October 4, 2005; therefore no performance statistics were available.

Mr. Candon arrived during the next item.

Mr. Jeffrey left the meeting during the next item.

Mondrian Investment Partners, Ltd. – Global Bonds/Fixed Income: Patricia M. Karolyi, Executive Vice President, Client Services, and John Kirk, Director, Global Fixed Income & Currency, appeared before the Committee. The VSTRS portfolio market value reported, which is co-invested with Delaware Investments, was approximately \$242.2 million with a Q3/2005 return of (0.9)% compared to the custom benchmark of 60% Lehman Aggregate/40% CITI World Government Bond Index at (.09)%. One-year performance was 3.7% vs. the benchmark of 3.0%; three-year return 8.2% vs. the benchmark of 5.8%, and a five-year of 9.6% vs. 7.4% for the benchmark.

At the Committee's request, the manager's presentation was focused on the Mondrian Global Fixed Income product.

Mr. Candon left the meeting.

Ms. Duquette arrived at the meeting.

Mr. Spaulding made a motion seconded by Mr. Altemus, to split assets, consistent with the individual system's current global bond asset allocations, assigning 50% to Brandywine Asset Management and 50% to Mondrian Investment Partners.

Mr. Hooper made a motion seconded by Mr. Healy, to amend the main motion to change the asset allocation split to 60% Brandywine Asset Management and 40% Mondrian Investment Partners. *Motion failed.*

The original motion passed; with the understanding that consistent with the existing rebalancing policy, future rebalancing would remain at 50% -50% between the managers, unless modified by the Committee.

Mr. Gold left the meeting.

Delaware Investments – Global Bonds/Fixed Income: Ryan K. Brist, Managing Director and CIO Fixed Income Investments, Stephen A. Mullin, Portfolio Analyst, and David Prince, Senior Vice President, Client Services, appeared before the Committee. The VSTRS portfolio market value reported, which is co-invested with Mondrian Investment Partners, Ltd, was approximately \$242.2 million, with performance as listed above.

At the Committee's request, the manager's presentation was focused on the core domestic fixed income portfolio strategy.

Mr. Whitney arrived during the next item.

Loomis Sayles – Core Fixed Income: Tim Haarman, Vice President and Portfolio Manager, and Peter Palfrey, Senior Portfolio Manager, appeared before the Committee. The VSTRS portfolio market value reported was approximately \$152.2 million with a Q3/05 return of (0.5)% vs. the Lehman Aggregate Bond Index of (0.7)%. One-year performance was 2.3% vs. the benchmark of 2.8%; three-year return 6.6% vs. the benchmark of 4.0%, and five year of 6.5% vs. 6.6% for the benchmark.

The VSERS portfolio market value reported was approximately \$261.6 million with a Q3/05 return of (0.5)% vs. the Lehman Aggregate Bond Index of (0.7)%. One-year performance was 2.2% vs. the benchmark of 2.8%; three-year return 6.3% vs. the benchmark of 4.0%, and five year of 6.8% vs. 6.6% for the benchmark.

The SDIA portfolio market value was reported at approximately \$59 million with a Q3/05 return of (0.3)% vs. the Lehman Intermediate Aggregate Index of (0.4)%. One-year performance was 1.05% vs. the benchmark of .88%; three-year return 3.92% vs. the benchmark of 3.33%, and five year of 6.2% vs. 6.0% for the benchmark.

The Manager advised the Committee of a holding that has dropped below the investment grade allowable for the SDIA portfolio.

Mr. Kaplan made a motion seconded by Mr. Altemus, to terminate the VSTRS Delaware/Mondrian global fixed income contract, concurrent with the implementation of the new Mondrian and Brandywine mandates voted earlier. Motion passed.

Mr. Kaplan made a motion seconded by Mr. Mackey, to permit Loomis Sayles to hold the non-investment grade rated \$1.375 First Bank Puerto Rico 7.625% subordinated notes position through the 12/20/2005 maturity date. Motion passed.

Mr. Harris arrived at the meeting during the following motion's discussion.

Mr. Whitney made a motion seconded by Mr. Mackey, to terminate the relationship with Loomis Sayles for the VSTRS and VSERS fixed income management (exclusive of the SDIA account), and move the funds under management to Delaware's core fixed income product.

Ms. Duquette made a motion to table action on the original motion until after hearing from Seix Advisors. Motion failed, due to lack of a second.

The original motion passed.

Mr. Kaplan made a motion seconded by Mr. Whitney, to authorize the Treasurer's Office to initiate an RFP in search of investment legal counsel. *Motion passed.*

Mr. Kaplan stressed the intent of his motion was for the VPIC to hire the attorney, or firm, to advise and assist the Committee in some contracting and investment issues.

Seix Advisors – Core Fixed Income: Christina Seix, CEO & CIO, and Sam Zona, Managing Director, appeared before the Committee. The VMERS portfolio market value reported was approximately \$68 million with a Q3/2005 return of (0.7)% vs. the Lehman Aggregate Bond Index of (0.7)%; one-year return was 2.6% vs. the benchmark of 2.8%, three-year return 4.7% vs. the benchmark of 4.0%, and five-year return 6.3% vs. 6.6% for the benchmark.

The VMERS **High Yield Fixed Income** portfolio, also managed by Seix Advisors, market value reported was approximately \$12.7 million with a Q3/2005 return of (0.8)% vs. the Merrill Lynch High Yield Master II Index of 0.9%, and one-year return was 5.1% vs. the benchmark of 6.7%. The three-year and five-year returns were not available.

Mr. Kaplan left the meeting.

Ms. Duquette left the meeting.

Mr. Candon returned to the meeting.

MW Post Advisory – High Yield Fixed Income: Allan Schweitzer, Managing Director and Portfolio Management, and Ralph Canada, Director and Relationship Management, appeared before the Committee. The VSERS portfolio market value reported was approximately \$56.5 million with a Q3/2005 return of 1.3% vs. the Lehman High Yield Index of 0.9%, and one-year return was 6.5% vs. the benchmark of 6.7%. The three-year and five-year returns were not available.

ITEM 2: Board Discussion/Action Items

- A. NEPC Observations/Recommendations
- B. Possible Committee Action

Ms. Griggs referred the members to page 10 of the *November 2005 Existing Fixed Income Manager Review* to address issues under discussion.

Mr. Spaulding made a motion seconded by Mr. Jeffrey, to employ MW Post as the VPIC high yield manager, and terminate the relationship with Seix Advisors. *Motion passed.*

Mr. Spaulding made a motion for the VPIC to recommend the VSTRS adopt an asset allocation amendment to add a 5% high yield allocation, with adjustments of 3% from large cap and 2% from fixed income. *Motion failed due to the lack of a second.*

Mr. Kaplan returned to the meeting.

Mr. Harris made a motion seconded by Mr. Whitney, to refer the topic of Global Asset Allocation to the Investment/Search Subcommittee to develop a recommendation for a 10% asset allocation, determine where the funds would come from and which manager(s) funds would go to, and

instruct legal services to proceed with contract issues, with the understanding no formal funding commitment is being made at this time. *Motion failed.*

Mr. Jeffrey made a motion seconded by Mr. Kaplan to terminate Seix Investment Advisors and move the VMERS core fixed income assets to the Delaware core fixed income product. *Motion passed.*

Mr. Kaplan made a motion seconded by Mr. Whitney, to contract State Street Bank & Trust Company for the purpose of transition management, based on the advice of Mr. Minot and the Investment Consultant advisors. *Motion passed.*

ITEM 3: Any Member NEW or OTHER Business to Come Before the Committee

Mrs. McIntire made a motion seconded by Mr. Spaulding, for the Executive Subcommittee to review the Policy and Investment/Search subcommittee's composition and appointment process, and prepare a recommendation for any changes or modifications, if appropriate. *Motion failed.*

Mr. Spaulding asked for a future agenda item to include discussion on SMID investments.

Mr. Altemus asked for an agenda action item to examine subcommittee composition/appointment process.

Mr. Kaplan asked for an agenda item to examine the Executive Subcommittee composition/appointment.

NEXT MEETING

February 14 and/or 15, 2006 – Quarterly Investment meeting.

ITEM 4: Adjournment

On a motion by Mr. Candon seconded by Mr. Jeffrey, the Committee unanimously voted to adjourn at 5:00 p.m.

Respectfully submitted,

Donna Holden, Clerk